



**STATE OF NEW JERSEY
SMALL EMPLOYER HEALTH
BENEFITS PROGRAM**

Financial Statements

June 30, 2015

With Independent Auditors' Report

**State of New Jersey
Small Employer Health Benefits Program
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June 30, 2015**

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Independent Auditors' Report

**To the Board of Directors,
State of New Jersey Small Employer Health Benefits Program**

We have audited the accompanying financial statements of the State of New Jersey Small Employer Health Benefits Program (the "Program"), which comprise the statement of net assets as of June 30, 2015, and the related statement of changes in net assets for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2015, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

William Smith + Brown, PC

January 1, 2016

**State of New Jersey
Small Employer Health Benefits Program
Management's Discussion and Analysis
June 30, 2015**

The following narrative provides an overview and analysis concerning the New Jersey Small Employer Health Benefits Program's ("Program") financial performance of its activities for the fiscal year ended June 30, 2015.

General Information

In fiscal year 2015, the Program assessed carriers for budgeted expenses for fiscal year 2016 of \$289,350 and prepared the final reconciliation for fiscal year 2014 administrative expenses which resulted in invoicing carriers \$14,164 and refunding carriers \$39,624 which included interest earned of \$100.

The Program audit for the fiscal year ended June 30, 2014 was completed and an unqualified opinion was issued.

Financial Highlights

The Program's assets totaled \$492,274, an increase of \$148,790 from the prior fiscal year due mainly to cash. Cash increased due to receipts from carriers for the fiscal year 2016 administrative assessment in fiscal year 2015 in addition to the deferral of the fringe benefits payment for fiscal year 2015 which was paid in fiscal year 2016.

Financial Analysis

	<u>2015</u>	<u>2014</u>
Total Assets & Liabilities	\$ 492,274	\$ 343,484
Total Revenue & Expenditures	\$ 235,201	\$ 234,026
Total Budgeted Expenditures	\$ 306,270	\$ 256,550

Total expenses increased by \$1,175 from 2014 to 2015 principally due to the overhead allocation of \$13,012 for chargebacks from the Department offset by decreases in salaries and fringe.

Total actual expenses were favorable to budgeted expenses by \$71,069 primarily due to the decrease in salaries and fringe because of a reduction in staff for fiscal year 2015 and overestimate of overhead expense allocation from the Department.

For fiscal year ended June 30, 2015, salaries and fringe accounted for 86.2% of total expenditures and legal fees accounted for 1.1%, as compared to 89.7% and 2.6%, respectively, for fiscal year ended June 30, 2014. Overhead accounted for 5.5% of total expenditures as compared to 0.37% in fiscal year 2014, due to the allocation of shared Department expenses.

Contacting the Program Board

This financial report is designed to provide the Small Employer Health Benefits Program Board and the member carriers with a general overview of the Program's finances and to demonstrate the Board's accountability for the administrative assessment funds received. If there are any questions about this report or need additional information, contact the State of New Jersey Small Employer Health Benefits Program at 20 West State Street, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325.

**State of New Jersey
Small Employer Health Benefits Program
Statement of Net Assets
June 30, 2015**

Assets

Cash and cash equivalents	\$	425,367
Accounts receivable		
Due from IHC program		<u>66,528</u>
Total current assets		491,895
Property and equipment, net		<u>379</u>
	\$	<u>492,274</u>

Liabilities and net assets

Liabilities

Accounts payable - members	\$	71,720
Accounts payable		452
Accrued expenses		130,556
Interest payable - members		196
Deferred income		<u>289,350</u>
Total liabilities		492,274
Net assets		<u>--</u>
	\$	<u>492,274</u>

The Notes to Financial Statements are an integral part of this statement.

**State of New Jersey
Small Employer Health Benefits Program
Statement of Changes in Net Assets
For the Year Ended June 30, 2015**

Revenues	
Administrative assessment	\$ 235,201
Expenditures	
Salaries	141,857
Fringe benefits	60,812
Audit fees	14,000
Legal fees	2,469
Temporary help	440
Overhead allocation - DOBI	13,012
Other expenditures	1,992
Depreciation	<u>619</u>
Total expenditures	<u>235,201</u>
Change in net assets	--
Net assets - beginning of the year	<u>--</u>
Net assets - end of the year	<u>\$ --</u>

The Notes to Financial Statements are an integral part of this statement.

**State of New Jersey
Small Employer Health Benefits Program
Notes to Financial Statements
June 30, 2015**

1. Organization and Purpose

The State of New Jersey Small Employer Health Benefits Program (the "Program" or "SEH") was created pursuant to L.1992, c.162 (N.J.S.A. 17B:27A-17 et seq.), and has been amended by subsequent acts of the legislature. It has as its members all insurance companies, health service corporations, hospital service corporations, medical service corporations and health maintenance organizations that issue or have in force Small Employer health benefits plans in New Jersey. The purpose of the Program is to assure the availability of standardized health benefits plans to New Jersey small employers, their eligible employees and the dependents of those eligible employees, on a guaranteed issue basis. Small employers are considered any person, firm, corporation, partnership, or political subdivision that is actively engaged in business that employed an average of at least one but not more than fifty eligible employees on business days during the preceding calendar year and who employs at least one eligible employee on the first day of the plan year. The Program is tax-exempt.

2. Basis of Presentation and Accounting Policies

The Program's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The Program follows the pronouncements of all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins on Accounting Procedures issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. In addition, all financial records are kept in accordance with the State of New Jersey's prescribed policies and procedures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks, and cash held by the State of New Jersey. The Program's total cash and cash equivalents were \$425,367 at June 30, 2015. The Program's bank balances were \$221,017 at June 30, 2015, all of which were insured by the Federal Deposit Insurance Corporation held in the Program's name by the Program's financial institutions or agents.

Cash held by the State of New Jersey, Department of Banking and Insurance (DOBI) includes funds used for payment of Program expenses, such as staff salaries, fringe benefits, and other miscellaneous expenditures that were provided through State sources.

Cash and cash equivalents consist of:

Commercial Checking	\$ 1,060
Money Market	219,957
NJ State - S.E.H. DOBI - Admin	<u>204,350</u>
Total Cash and Cash Equivalents	<u>\$ 425,367</u>

**State of New Jersey
Small Employer Health Benefits Program
Notes to Financial Statements
June 30, 2015**

Property and Equipment

Property and equipment are carried at cost and is shared equally with the Individual Health Coverage Program. In accordance with the State of New Jersey Circular #11-19-OMB, effective April 6, 2011, the Program follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$1,000. The Program provides for depreciation as follows:

Asset	Estimated Useful Life	Method
Computers	3 years	Straight-line

Accounts Payable - Member Carriers

The balance represents amounts owed to the carriers as a result of the difference between the amounts billed for operating expenditures per the annual budget versus actual expenditures incurred. The amounts due will be refunded to the carriers as set forth in a final assessment reconciliation following completion of the audit of the assessment years' financial transactions.

Deferred Income

The balance represents the amounts invoiced to member carriers for an administrative assessment for the fiscal year ending June 30, 2016 based on the budgeted amount for the Program for that fiscal year in accordance with N.J.S.A 17B:27A-32d, and the Plan of Operations set forth at N.J.A.C. 11:21-2.

Revenues and Operating Expenditures

Revenues and expenditures are related to the operation of the Program. Operating revenues are based on actual administrative expenditures of the Program, and are recorded when earned. Expenditures are recorded when incurred.

There are no net assets of the Program because N.J.A.C. 11:21-2.8(a) requires that a final reconciliation of the assessment for administrative expenditures shall be made upon approval of the final audited amount of expenditures. Members are credited for any money previously assessed and paid for that fiscal year.

Related Party Transactions

Although the Program and the Individual Health Coverage Program (IHC Program) are distinct State agencies and have separate Boards and regulations, the Programs share the staff, thus salaries, fringe benefits and other miscellaneous expenditures incurred through the Department of Banking and Insurance are split equally by each program. In 2015 charges to and from the IHC Program amounted to \$201,203 and \$14,800, respectively. As of June 30, 2015, the IHC Program owed the SEH Program \$66,528.

Pensions

The staff of the Program is covered under the State Health Benefits Plan, which includes health, dental, and prescription coverage.

The State offers eight defined benefit pension funds: Public Employees' Retirement System ("PERS"), Teachers' Pension and Annuity Fund ("TPAF"), Police and Firemen's Retirement System ("PFRS"), State Police Retirement System ("SPRS"), Judicial Retirement System ("JRS"), Consolidated Police and Firemen's Pension Fund ("CPF"), the Prison Officers' Pension Fund ("POPF"), and the Central Pension Fund ("CPF"). The staff of the Small Employer Health Benefits Program are members of the PERS.

The PERS was established in 1955 by New Jersey Statute and can be found in the New Jersey Statutes annotated, Title 43, Chapter 15A. Changes in the law can only be made by an act of the State legislature. Rules governing the operation and administration of the system may be found in Title 17,

**State of New Jersey
Small Employer Health Benefits Program
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Chapters 1 and 2 of the New Jersey Administrative Code. The system was established to provide retirement, death and disability benefits, including post-retirement health care, to all full-time employees of the State and any county, municipality, school district, or public agency provided the employee is not a member of any other state-administered retirement system. Membership is mandatory for such employees.

Vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

The PERS is a defined benefit plan administered by the New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the PERS to the State of New Jersey, Department of Treasury. Contributions include funding for basic retirement allowances, cost-of-living adjustments, noncontributory death benefits, and cost of medical premiums after retirement for qualified retirees.

The full normal employee contribution rate is 5.5% of base salary. The rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) is 8.5% of base salary. Effective October 2011, pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS will be increased from 8.5% of base salary to 10%.

Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

In accordance with the provisions of N.J.S.A. 43:15A, the contribution policy requires State-related employers and the State of New Jersey to contribute at an actuarially determined rate. The actuarial cost method is projected unit credit. The actuarial assumptions were: investment rate of return 7.90%, salary range of 2.15% to 4.40% for 2012 through 2021 and 3.15% to 5.40% thereafter, based on age, cost-of-living adjustments of -0-% of the average consumer price index for the calendar year. The asset valuation method is the five year average of market value.

Contributions during the fiscal year 2014 for the PERS amounted to approximately \$141.8 million. The State of New Jersey's annual required contribution and actual contributions were \$1.5824 billion and \$699.9 million, respectively.

The State Health Benefit Plan ("SHBP") had an actuarial accrued liability of \$19.7 billion as of July 1, 2013. The actuarial value of assets of \$-0-, at July 1 2013, was less than SHBP liabilities, resulting in a funding ratio of -0-%, or \$19.7 billion in funding deficit. Covered payroll for employees under the SHBP amounted to \$7.8 billion, which translates into a funding deficit of 252.8% of covered payroll.

Retirement benefits for age and service are available at age 60. Employees who retire at the age of 60 are entitled to a retirement benefit determined to be 1/55th of the final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or the highest three years compensation if other than the final three years). Members may seek early retirement after achieving 30 years of service credit or they may elect deferred retirement after achieving ten years of service credit, in which case, benefits would begin the first day of the month after the member attains normal retirement age.

Financial statements for the State of New Jersey Public Employees' Retirement System are available by contacting the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

**State of New Jersey
Small Employer Health Benefits Program
Notes to Financial Statements
June 30, 2015**

The information contained herein for the pension footnote is taken from the PERS report for the fiscal year ended June 30, 2014, because the report for the fiscal year ended June 30, 2015 is not available at the time of issuance of this audit report and the information contained in the note is not reflected in the financial statements for the Program for the fiscal year ended June 30, 2015.

3. Fair Value Measurements

The Program has adopted the accounting pronouncement for Fair Value Measurements. The pronouncement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under the pronouncement as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under the pronouncement must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third unobservable, that may be used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with accounting standards, the following tables represent the Program's fair value hierarchy for its financial assets (cash and cash equivalents) measured at fair value on a recurring basis as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	<u>\$ 425,367</u>	<u>\$ --</u>	<u>\$ --</u>

4. Property and Equipment

Property and equipment consist of the following at June 30, 2015:

Computers	\$ 1,754
Less: accumulated depreciation	<u>(1,375)</u>
	<u>\$ 379</u>

Depreciation expense amounted to \$619 for the year ended June 30, 2015.

5. Subsequent Events

The Program has evaluated subsequent events occurring after the statement of net assets through the date of January 1, 2016. Based on this evaluation, the Program has determined that no subsequent events have occurred, which require disclosure in the financial statements.